

**MISSOURI PUBLIC ENTITY RISK  
MANAGEMENT FUND**

Jefferson City, Missouri

**INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2007 and 2006

## **TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1
MANAGEMENT DISCUSSION & ANALYSIS.....	2 - 5
FINANCIAL STATEMENTS:	
Balance Sheets.....	6
Statements of Operations and Changes in Retro Return Reserve.....	7
Statements of Cash Flows.....	8
NOTES TO THE FINANCIAL STATEMENTS.....	9 - 18
SUPPLEMENTAL INFORMATION:	
1998-2007 Loss Development Information.....	19 - 20
Reconciliation of Claims Liability by Type of Contract.....	21

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
**Missouri Public Entity Risk Management Fund**  
Jefferson City, Missouri:

We have audited the accompanying financial statements of the business-type activities of **Missouri Public Entity Risk Management Fund** (MOPERM), as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MOPERM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the **Missouri Public Entity Risk Management Fund**, as of December 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, ten year loss development information, and reconciliation of claims liabilities by type of contract on pages 2 through 5 and 19 through 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Evers & Company, CPA's, LLC*

EVERS & COMPANY, CPA's, L.L.C.  
Jefferson City, Missouri

March 19, 2008

# **MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Management of the Missouri Public Entity Risk Management Fund (MOPERM) offers this narrative overview and analysis of the financial activities of MOPERM for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

## **Fund Accounting**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is not considered to be a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. MOPERM's funds are considered proprietary funds.

*Proprietary funds.* Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers of the provision of those goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: Enterprise Fund. MOPERM's purpose is to provide liability and property insurance coverage to participating public entities, their officials and employees.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to MOPERM's financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The financial statements, in addition to management's discussion and analysis, are comprised of the balance sheet; the statement of operations and changes in retro return reserve; the statement of cash flows and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The balance sheet presents MOPERM's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as retro return reserve. The retro return reserve of MOPERM reflect the resources available as of the end of the fiscal year to pay claims of participants when due. Over time, increases and decreases in retro return reserve measure whether MOPERM's financial position is improving or deteriorating.

The statement of operations and changes in retro return reserve presents information detailing the revenues and expenses that resulted in the change in retro return reserve that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual

cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by fiscal year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the balance sheet. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statement of operations and changes in retro return reserve.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past ten years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

### Financial Analysis

The following tables present the summarized financial position and results of operations for the fiscal years ended December 31, 2007 and 2006. Additional details are available in the accompanying financial statements.

	2007	2006	Increase (Decrease)
<b>ASSETS</b>			
Cash and investments	\$ 85,475,887	\$ 68,147,445	\$ 17,328,442
Receivables	1,801,359	2,940,712	(1,139,353)
Capital assets	1,193,041	1,253,549	(60,509)
Other	13,236	214,122	(200,886)
Total assets	\$ 88,483,523	\$ 72,555,828	\$ 15,927,695
<b>LIABILITIES</b>			
Loss and loss adjustment expense	\$ 45,211,346	\$ 38,487,098	\$ 6,724,248
Other	10,263,235	8,886,479	1,376,756
Total Liabilities	55,474,581	47,373,577	8,101,004
<b>RETRO RETURN RESERVE</b>			
Designated catastrophic reserves	22,846,683	20,585,098	2,261,585
Invested in capital assets	1,193,041	1,253,549	(60,509)
Undesignated	8,969,218	3,343,604	5,625,614
Total retro return reserve	33,008,942	25,182,251	7,826,691
Total liabilities and retro return reserve	\$ 88,483,523	\$ 72,555,828	\$ 15,927,695

- MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. Effective July 1, 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM increased its overall membership by 5 members during 2007, compared to an 18 member increase during 2006. The additional

members added in 2007 were relatively small entities. Total assets increased by \$15,927,695 in 2007 to \$88,483,523. The total increase in assets during 2006 was approximately \$10,600,500. Net loss and loss expense paid in 2007 was less than the amount paid in 2006 which resulted in an increase in cash for investments. During 2007, receivables decreased by \$1.1 million dollars. The majority of this decrease is due to a payment of approximately \$1.2 million received in 2007 from a previous excess liability insurance carrier. The receivable from the excess liability carrier as of December 31, 2007 approximated \$855,000. Capital assets decreased in 2007 due to the retirement/sale of old equipment, computers and one automobile. Other assets decreased by \$200,886 in 2007. This is the result of not prepaying 2008 premium for earthquake excess insurance.

- Total liabilities increased by \$8,101,004 in 2007 to \$55,474,581. The increase in liabilities was primarily associated with an increase in loss and loss adjustment reserves for the liability line of business. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary. The majority of the increase in Other Liabilities is unearned member contribution. MOPERM has no long term debt.
- Retro Return Reserve for 2007 increased by net income of \$7,826,691. Since its inception, MOPERM has refunded over \$7 million of contributions to the participating members. MOPERM's Board of Trustees did not declare a dividend in 2007.

	2007	2006	Increase (Decrease)
<b>OPERATING REVENUES</b>			
Contributions	\$ 22,349,103	\$ 21,923,084	\$ 426,019
Investment income	3,592,599	2,605,586	987,013
Other income (expense)	4,323	2,500	1,823
Total operating revenues	25,946,025	24,531,170	1,414,855
<b>OPERATING EXPENSES</b>			
Loss and loss adjustment expense	14,886,164	15,111,851	(225,687)
Excess insurance premiums	1,378,279	1,119,915	258,364
General and administrative	2,995,868	3,004,756	(8,888)
Total operating expenses	19,260,311	19,236,522	23,789
Net operating income	6,685,714	5,294,648	1,391,066
Unrealized gain on investments	1,140,977	209,084	931,893
Net income	\$ 7,826,691	\$ 5,503,732	\$ 2,322,959

- Contributions earned for 2007 increased by \$426,019. Approximately \$489,136 of the increase was attributed to the property line of business through addition of new members and a rate increase due to increases in earthquake excess premiums. Liability contribution was a negative (\$63,117) for 2007 due to no contribution rate change and the loss of some mid size members.
- MOPERM has invested approximately \$79.3 million, primarily in U.S. Government Agency Securities with final maturities of seven years or less with a one time call. Investment income consists of interest income, amortization of premium and discounts on bonds, and realized gains and losses on securities. Investment income for 2007 increased by \$987,013 due to an increase in total investments held by MOPERM. Because of the changes in interest rates in the investment market, MOPERM experienced an unrealized gain on investments of \$1,140,977 during 2007.

- Loss and loss adjustment expense decreased by \$225,687 in 2007. MOPERM paid out approximately \$663,000 less in claims in 2007 than 2006.
- Excess insurance premiums increased by \$258,364 in 2007. In 2007, MOPERM experienced increased rates on earthquake excess in the property line of business. The premium for excess insurance for property increases as new members are written.
- General and administrative expenses approximated 13.4% and 13.7% of total contributions earned for 2007 and 2006, respectively. These expenses decreased by \$8,888 in 2007. The majority of this decrease was due to decreased depreciation expense and maintenance services offset by increases in legal services, commission expense and other outside services.

## **FINANCIAL SUMMARY**

In 2007, MOPERM experienced some growth, adding a few new members and \$426,000 in contribution earned. Liability rates remained constant while property rates increased due to increased rates on earthquake excess premiums. MOPERM had a total of 927 contributors as of December 31, 2007. The growth in contribution revenue is attributed to the increase in the contribution rates for property.

Net income increased by \$2,322,959 even though MOPERM only had a \$426,019 increase in contributions. This is due primarily to the increase in investment income and unrealized gain on investments. The general and administrative expenses were down slightly from 2006 and loss and loss adjustment expense was less in 2007. Retro return reserves increased by \$7,826,691 in 2007. Overall, the financial position of MOPERM remains very stable.

## **Economic Environment and Next Year's Budget and Rates**

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

The 2008 estimated contribution was down about 8% compared to the final 2007 contribution amount. The decrease was the anticipation of losing some of the larger members and the softening of the current market. Companies have re-entered the public entity market sector where there has been little interest the past few years. The total operating expenses are budgeted to rise about 3.2% to \$4.5 million over the final 2007 operating expenses of \$4.3 million. The largest increments are commission expense, excess insurance premiums, and salary and benefits. The total operating expenses are about 21% of total budgeted contribution. The loss and loss expense percentage remains constant at 75% of budgeted contribution each year. There have been no major insurance program changes for 2008.

## **Contacting the Fund's Financial Management**

This financial report is designed to provide our members and the public with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the contribution it receives. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Cathy Schulte, at PO Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail [Cathy-Schulte@moperm.com](mailto:Cathy-Schulte@moperm.com).

**BASIC  
FINANCIAL  
STATEMENTS**



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## BALANCE SHEETS

**DECEMBER 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,106,590	\$ 1,289,532
Investments	79,369,297	66,857,913
Deposits and accounts receivable other than contributions	1,053,606	2,265,401
Accrued interest receivable	732,244	659,818
Contributions in the course of collection	15,510	15,493
Prepaid expenses	13,235	214,122
Capital assets (net of accumulated depreciation of \$1,382,244 in 2007 and \$1,333,306 in 2006)	<u>1,193,041</u>	<u>1,253,549</u>
<b>Total assets</b>	<u>\$ 88,483,523</u>	<u>\$ 72,555,828</u>
<b>Liabilities and Retro Return Reserve</b>		
<b>Liabilities:</b>		
Loss and loss adjustment expense reserves	\$ 45,211,346	\$ 38,487,098
Advance contributions	10,094,779	8,737,251
Accounts payable and accrued expenses	<u>168,456</u>	<u>149,228</u>
<b>Total liabilities</b>	<u>55,474,581</u>	<u>47,373,577</u>
<b>Retro return reserve (unrestricted):</b>		
Designated catastrophic reserves	22,846,683	20,585,098
Invested in capital assets	1,193,041	1,253,549
Undesignated	<u>8,969,218</u>	<u>3,343,604</u>
<b>Total retro return reserve (unrestricted)</b>	<u>33,008,942</u>	<u>25,182,251</u>
<b>Total liabilities and retro return reserve</b>	<u>\$ 88,483,523</u>	<u>\$ 72,555,828</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
STATEMENTS OF OPERATIONS AND CHANGES  
IN RETRO RETURN RESERVE**

**FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Revenues:		
Contributions	\$ 22,349,103	\$ 21,923,084
Investment income	3,592,599	2,605,586
Other income (expense)	<u>4,323</u>	<u>2,500</u>
Total operating revenues	<u>25,946,025</u>	<u>24,531,170</u>
Expenses:		
Loss and loss adjustment expenses	14,886,164	15,111,851
Excess insurance premiums	1,378,279	1,119,915
General and administrative	<u>2,995,868</u>	<u>3,004,756</u>
Total operating expenses	<u>19,260,311</u>	<u>19,236,522</u>
Net operating income	6,685,714	5,294,648
Unrealized gains on investments	<u>1,140,977</u>	<u>209,084</u>
Net income	7,826,691	5,503,732
Retro return reserve, beginning of year	25,182,251	19,678,392
Refunds to members, net of refunds returned	<u>-</u>	<u>127</u>
Retro return reserve, end of year	<u>\$ 33,008,942</u>	<u>\$ 25,182,251</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND**  
**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Contributions collected	\$ 23,706,614	\$ 20,951,697
Loss and loss adjustment expenses paid	(6,950,121)	(8,652,777)
Payments to suppliers and excess insurer	(3,539,027)	(3,553,590)
Payments to employees	(521,578)	(512,465)
Investment income received	3,373,998	2,488,757
Other income (loss)	4,675	2,500
Net cash provided by operating activities	<u>16,074,561</u>	<u>10,724,122</u>
Cash flows used in non-capital financing activities:		
Refunds paid to members	<u>-</u>	<u>(263,248)</u>
Cash flows used in capital and related financing activities:		
Purchases of capital assets	<u>(33,272)</u>	<u>(29,147)</u>
Cash flows from investing activities:		
Proceeds from matured investments	97,793,396	43,392,478
Investments purchased	<u>(109,017,628)</u>	<u>(55,461,908)</u>
Net cash used in investing activities	<u>(11,224,232)</u>	<u>(12,069,430)</u>
Change in cash and cash equivalents	4,817,057	(1,637,703)
Cash and cash equivalents, beginning of year	<u>1,289,532</u>	<u>2,927,235</u>
Cash and cash equivalents, end of year	<u>\$ 6,106,589</u>	<u>\$ 1,289,532</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	<u>\$ 7,826,691</u>	<u>\$ 5,503,732</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	93,428	212,277
Realized losses on capital assets	352	-
Accretion of discounts and amortization of premiums, net	(146,176)	(237,129)
Realized losses on investments		220,349
Unrealized losses on investments	(1,140,977)	(209,085)
Changes in certain assets and liabilities:		
Increase in deposits and accounts receivable other than contributions	1,211,795	142,757
Increase in accrued interest receivable	(72,426)	(100,049)
Decrease (increase) in contributions in course of collection	(17)	44,066
Decrease (increase) in prepaid expenses	200,887	(212,813)
Increase in loss and loss adjustment expense reserves	6,724,248	6,316,317
(Decrease) increase in advance contributions	1,357,528	(1,015,453)
(Decrease) increase in accounts payable and accrued expenses	<u>19,228</u>	<u>59,153</u>
Net adjustments	<u>8,247,870</u>	<u>5,220,390</u>
Net cash provided by operating activities	<u>\$ 16,074,561</u>	<u>\$ 10,724,122</u>

The accompanying notes are an integral part of these financial statements.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### 1. Reporting Entity

The Missouri Public Entity Risk Management Fund (“MOPERM”) is a body corporate and politic created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for appointing some of the members of the Board of Trustees, the State’s accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. The property coverage underwriting is being administered through Arthur J. Gallagher. MOPERM had a total of 927 and 919 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2007 and 2006, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

### 2. Basis of Accounting and Summary of Significant Accounting Policies

#### Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred. MOPERM applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict the Governmental Accounting Standards Board (GASB) pronouncements.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and overnight repurchase agreements. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution’s trust department or agent in MOPERM’s name. The carrying amounts reported in the balance sheets approximate the fair value of these instruments.

#### Investments

MOPERM reports investments at fair value, with the changes in fair value reported in the Statements of Operations and Changes in Retro Return Reserve. The estimated fair value of fixed maturity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

#### **Capital Assets**

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	<b>Depreciable Life</b>
Automobiles	3 years
Equipment and leasehold improvements	5 years
Furniture and fixtures and building improvements	10 years
Building	40 years

#### **Contributions**

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are calculated based on actuarial projections to produce sufficient funds to pay losses and expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM.

#### **Retro Return Reserve Refunds**

If collected contributions exceed total paid claims, claim expenses and operating expense in any given year, the Board of Trustees may declare a refund of the excess be made to participants who were members of MOPERM during the policy year for which a refund was declared. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

#### **Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

#### **Designated Catastrophic Reserves**

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balance at December 31, 2007 and 2006 is equivalent to 10% of the earned contribution for the 2007 and 2006 policy year and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002. Plus any undesignated retro return reserves of a policy year twenty years old. The total of these reserves at December 31, 2007 is \$26,675. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

#### **Operating and Non-operating Income and Expenses**

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

#### **Income Taxes**

The Internal Revenue Service ruled that MOPERM is exempt from federal income tax under Section 115 of the Internal Revenue Code.

#### **Management's Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### **3. Deposits and Investments**

#### **Deposits**

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, MOPERM's deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of December 31, 2007 and 2006 no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in MOPERM's name.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### ***NOTE 3 – Continued (Deposits and Investments)***

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2007 and 2006, the carrying amount of deposits at the financial institutions was \$2,639,733 and \$(542,298), the bank balance was \$2,833,790 and \$765,196, respectively. Of the bank balance, \$100,000 was covered by federal depository insurance. At December 31, 2007 and 2006, an additional \$3,466,857 and \$1,831,830 was held in overnight repurchase agreements with a book value of \$ 3,466,857 and \$1,831,830. The repurchase agreements were collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. The bank overdraft of \$542,298 at December 31, 2006 is offset by the repurchase agreements as discussed above.

### **Investment Policies**

MOPERM's investment policy allows investments in: time deposits with maturity of twenty four months or less, U.S. Treasury securities and U.S. mortgage backed securities with final maturities of seven years or less, U.S. Government agency securities with final maturities of seven years or less, collateralized mortgage obligations that have a weighted average life not to exceed five years and pass the FFIEC High Risk Stress Test, commercial paper that may not exceed 180 days to maturity and repurchase agreements.

### **Investment Summary:**

The following table presents the summary of MOPERM'S investments by type at December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
U.S. Agencies	\$ 71,358,814	\$ 64,767,245
U.S. Government Guaranteed Mortgages	4,877,656	1,467,004
Collateralized Mortgage Obligations	3,132,827	623,664
	<u>\$ 79,369,297</u>	<u>\$ 66,857,913</u>

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. MOPERM's investment guidelines require diversified portfolios with no single issue being greater than 5% of the portfolio, except for obligations of the U.S. government or its agencies. As of December 31, 2007 and 2006, no single issue exceeds 5% of the portfolio, excluding U.S. government securities.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### *NOTE 3 – Continued (Deposits and Investments)*

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOPERM. At December 31, 2007 and 2006, all investments are guaranteed by the U.S. Government.

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

#### **Foreign Currency Risk**

MOPERM held no foreign investments or currency as of December 31, 2007 and 2006.



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

### 4. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

Category	Balance at December 31, 2006	Additions	Deductions/ Transfers	Balance at December 31, 2007
Building and building improvements	\$ 1,159,491	\$ -	\$ -	\$ 1,159,491
Equipment	47,816	9,915	18,453	\$ 39,278
Furniture and fixtures	89,526	3,115	-	92,641
Computer equipment and software	1,175,393	4,917	9,990	1,170,320
Automobiles	49,630	15,325	16,400	48,555
Intangible	65,000	-	-	65,000
Total capital assets	2,586,856	33,272	44,843	2,575,285
Less accumulated depreciation	1,333,307	93,428	44,491	1,382,244
Capital assets, net	\$ 1,253,549	\$ (60,156)	\$ 352	\$ 1,193,041

Capital asset activity for the year ended December 31, 2006 was as follows:

Category	Balance at December 31, 2005	Additions	Deductions/ Transfers	Balance at December 31, 2006
Building and building improvements	\$ 1,159,491	\$ -	\$ -	\$ 1,159,491
Equipment	47,616	200	-	47,816
Furniture and fixtures	85,790	3,736	-	89,526
Computer equipment and software	1,150,182	25,211	-	1,175,393
Automobiles	49,630	-	-	49,630
Intangible	65,000	-	-	65,000
Total capital assets	2,557,709	29,147	-	2,586,856
Less accumulated depreciation	1,121,030	212,277	-	1,333,307
Capital assets, net	\$ 1,436,679	\$ (183,130)	\$ -	\$ 1,253,549

Total depreciation expense for the years ended December 31, 2007 and 2006 was \$93,428 and \$212,277 respectively.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### 5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	<u>2007</u>	<u>2006</u>
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$2,496,199 in 2007 and \$2,650,844 in 2006	\$ 38,487,098	\$ 32,170,781
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	14,958,951	15,044,007
Provision for insured events – prior years	<u>(72,787)</u>	<u>67,844</u>
Total incurred loss and loss adjustment expenses	<u>14,886,164</u>	<u>15,111,851</u>
Payments:		
Loss and loss adjustment expenses attributable to insured events – current year	2,871,831	3,180,891
Loss and loss adjustment expenses attributable to insured events – prior years	<u>5,290,085</u>	<u>5,614,643</u>
Total payments	<u>8,161,916</u>	<u>8,795,534</u>
Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$1,322,275 in 2007 and \$2,496,199 in 2006	<u>\$ 45,211,346</u>	<u>\$ 38,487,098</u>

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

### 6. General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri for all costs of administration, including salary costs of \$521,757 for 2007 and \$512,123 for 2006 and pension costs of \$64,100 for 2007 and \$62,081 for 2006. All property business is required to be written through agents and liability business written through agents has increased. Agent commission expense totaled \$1,755,995 and \$1,684,390 for the years ended December 31, 2007 and 2006, respectively. Loss control services, provided by an outside consultant, approximated \$99,490 and \$97,748 for the years ended December 31, 2007 and 2006, respectively.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### 7. Operating Leases

MOPERM is obligated under a long-term, noncancelable operating lease agreement for office equipment. Minimum annual rental commitments under the non-cancelable operating lease are as follows:

2008	\$	2,802
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### 8. Retro Return Reserve Refunds

The Board of Trustees of MOPERM did not declare retro return reserve refunds during 2007 or 2006. As of December 31, 2007, cumulative retro return reserve refunds were as follows:

Policy Year	Refunds		Refunds		Percentage of Contributions Refunded
	Declared and Paid Prior to 2007		Declared and Accrued During 2007	Total Refunds Declared	
1987	\$ 1,391,082		\$ -	\$ 1,391,082	85%
1988	2,074,331		-	2,074,331	76%
1989	519,031		-	519,031	23%
1990	933,499		-	933,499	45%
1992	643,707		-	643,707	22%
1994	155,373		-	155,373	3%
1995	1,175,375		-	1,175,375	20%
1996	129,080		-	129,080	2%
	<u>\$ 7,021,478</u>		<u>\$ -</u>	<u>\$ 7,021,478</u>	

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### 9. Excess Insurance

MOPERM has maintained various excess insurance coverage with outside insurance carriers for the liability program. From January 1, 1989 through December 31, 1995, coverage was provided on a claims made basis. From December 31, 1995 through July 7, 2002, coverage was provided on an occurrence basis.

During the period from December 31, 1995 through July 7, 2002, the excess liability policy provided coverage of \$100,000 for each occurrence or wrongful act in excess of a \$900,000 self-insured retention limit and an aggregate limit of \$3,000,000 based on a minimum underlying self-insured retention of \$6,000,000.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability.

Effective July 1, 2003, excess insurance for the property program was purchased with outside carriers.

The property excess policy, with Allianz Insurance Company, provides coverage of \$200,000,000 for each occurrence. MOPERM's 2007 and 2006 retention per occurrence was \$50,000, except wind and hail that has \$100,000 retention per occurrence, with no annual aggregate. The boiler and machinery excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence for 2007 and 2006. The crime excess policy, with Travelers Casualty and Surety of America, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate for both 2007 and 2006.

### 10. Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

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### 11. Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of such litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

During 2004, MOPERM received a court judgment against a prior excess liability insurance carrier regarding coverage on prior years' claims. Based upon the court judgment, MOPERM has recorded an excess insurance recoverable and related accrued interest totaling \$2,484,230 as of December 31, 2005. \$2,131,286 of this receivable is included in accounts receivable on the December 31, 2006 balance sheet. In 2007, MOPERM received payments of \$1,276,345 from the excess liability insurance carrier. This payment reduced the accounts receivable to \$854,941 as of December 31, 2007. The accrued interest receivable as of December 31, 2007 remains at \$67,635. An audit was conducted in 2007 by the excess carrier to try to come to an agreement on amounts due to MOPERM. In 2008, continued negotiations are being made with the excess carrier for remaining amounts due plus accrued interest. No additional monies have been received by MOPERM as of February 22, 2008. Because of the uncertainty of what the final payments to MOPERM will be, management has made the conservative decision to not accrue additional receivables or interest on this litigated receivable.

# **SUPPLEMENTAL INFORMATION**

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
SUPPLEMENTAL SCHEDULE OF 1998-2007  
LOSS DEVELOPMENT INFORMATION**

**DECEMBER 31, 2007**

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The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2007. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's cumulative contribution refunds for each policy year.
- (4) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (5) The cumulative net amounts paid as of the end of successive years for each policy year.
- (6) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (7) Each policy year's incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (8) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 4) and shows whether this latest estimate of loss cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT**  
**SUPPLEMENTAL SCHEDULE OF 1998-2007**  
**LOSS DEVELOPMENT INFORMATION, CONTINUED**  
**DECEMBER 31, 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Fiscal year ended:</b>										
(1) Contribution and investment revenue:										
Earned	\$ 8,314,302	\$ 8,160,933	\$ 8,900,923	\$ 10,320,770	\$ 11,746,288	\$ 13,758,081	\$ 19,112,502	\$ 22,356,241	\$ 24,528,670	\$ 23,941,702
Ceded	(102,000)	(70,000)	(70,000)	(70,000)	(36,233)	(58,521)	(712,488)	(990,355)	(1,119,915)	(1,378,279)
<b>Net earned</b>	<b>8,212,302</b>	<b>8,090,933</b>	<b>8,830,923</b>	<b>10,250,770</b>	<b>11,710,055</b>	<b>13,699,560</b>	<b>18,400,014</b>	<b>21,365,886</b>	<b>23,408,755</b>	<b>24,563,423</b>
(2) Unallocated expenses	1,040,417	994,573	1,160,371	1,332,197	1,532,038	1,795,366	2,616,855	2,796,814	3,004,756	2,995,869
<b>Policy year ended:</b>										
(3) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,742,751	14,344,347	15,374,073	15,169,791
Ceded	-	-	-	-	-	-	(278,067)	(2,631)	(330,067)	(210,840)
<b>Net incurred</b>	<b>5,189,809</b>	<b>5,126,045</b>	<b>5,448,430</b>	<b>6,515,098</b>	<b>7,727,237</b>	<b>9,257,889</b>	<b>12,464,684</b>	<b>14,341,716</b>	<b>15,044,007</b>	<b>14,958,951</b>
(4) Net paid losses (cumulative) as of:										
End of policy year	1,397,016	1,493,067	1,648,659	1,745,939	2,600,699	2,186,599	2,226,701	2,360,924	2,850,824	2,660,991
One year later	1,968,625	2,226,225	2,629,100	2,219,176	3,316,104	2,921,088	4,105,287	3,296,373	3,743,592	-
Two years later	3,187,766	3,369,015	3,756,516	3,040,750	4,736,877	4,380,519	5,686,577	5,170,224	-	-
Three years later	5,020,185	3,951,688	4,402,095	3,900,515	7,686,502	6,059,643	6,497,502	-	-	-
Four years later	5,868,584	4,554,198	4,782,322	4,508,481	8,775,277	6,286,181	-	-	-	-
Five years later	6,429,313	5,612,844	4,924,726	4,868,639	10,240,003	-	-	-	-	-
Six years later	5,832,792	5,675,870	5,079,038	4,991,468	-	-	-	-	-	-
Seven years later	5,829,850	5,792,709	5,159,859	-	-	-	-	-	-	-
Eight years later	5,831,349	5,793,278	-	-	-	-	-	-	-	-
Nine years later	5,831,722	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense	-	-	-	-	-	-	(569,344)	(37,479)	(586,563)	-
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716	15,044,007	14,958,951
One year later	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,259,123	12,439,325	14,305,897	14,987,767	-
Two years later	5,189,809	5,126,045	5,448,430	6,515,098	9,272,684	9,259,123	12,439,325	14,288,296	-	-
Three years later	5,950,981	5,126,045	5,448,430	6,515,098	10,921,161	9,259,123	-	-	-	-
Four years later	6,227,771	5,467,782	5,448,430	6,515,098	10,921,161	9,259,123	-	-	-	-
Five years later	6,435,363	6,151,254	5,448,430	6,515,098	10,921,161	-	-	-	-	-
Six years later	6,020,178	6,151,254	5,448,430	6,515,098	-	-	-	-	-	-
Seven years later	6,020,178	6,151,254	5,448,430	-	-	-	-	-	-	-
Eight years later	6,020,178	6,151,254	-	-	-	-	-	-	-	-
Nine years later	6,020,178	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	830,369	1,025,209	-	-	3,193,924	1,234	(25,359)	(53,420)	(56,240)	-



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Reconciliation of Claims Liabilities by Type of Contract For the Years Ended December 31, 2007 and 2006

The schedule below presents the changes in claims liabilities for the past two years for the Fund's two types of contracts: Liability and Property.

	Liability		Property	
	2007	2006	2007	2006
Loss and loss adjustment expense reserves, beginning of year.	\$ 38,286,308	\$ 32,028,697	\$ 200,790	\$ 142,084
Incurring loss and loss adjustment expenses:				
Provision for insured events – current year	14,154,983	14,202,321	803,968	841,686
Provision for insured events – prior years	4,912	99,807	(77,699)	(31,963)
Total incurred loss and loss adjustment expenses	14,159,895	14,302,128	726,269	809,723
Payments:				
Loss and loss adjustment expenses attributable to insured events – current year	2,087,605	2,187,277	784,226	993,613
Loss and loss adjustment expenses attributable to insured events – prior years	5,377,833	5,857,240	(87,748)	(242,596)
Total payments	7,465,438	8,044,517	696,478	751,017
Loss and loss adjustment expense reserves, end of year.	\$ 44,980,765	\$ 38,286,308	\$ 230,581	\$ 200,790